1812

1921

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, FEBRUARY, 1921.

General Business Conditions.

THE general business situation is marked by greater confidence than was manifest in the last weeks of 1920, and there are tangible evidences of improvement. The apprehensions and rumors of impending trouble which are always a demoralizing influence when the credit situation is under strain, have been largely cleared away. The irresponsible talk about a "panic" has been silenced. The epidemic of business failures predicted for the end of the year did not come. The number of reported bankruptcies has increased, but has not been alarming, and the cases have been mainly of small concerns of mushroom growth, who extended their business rapidly upon small capital while prices were rising and did not have the reserve resources to meet the losses that were inevitable when reverses came. The substantial business structure of the country is unshaken, and whatever anxiety there may have been upon that score has been relieved.

Heavy Losses.

This does not mean that heavy losses have not been taken. Only the fortunate or sagacious few who began to trim their sails early in the year, and deliberately restricted their business, escaped. Some made good profits in the first six or nine months and lost most of them in the last three months, while many have come out of the year not only without a return upon the investment, but with an impairment of capital. Official price regulation, which curtailed profits while prices were rising, and prevented the creation of a cushion to absorb the losses while prices were falling, is held largely responsible for the dissipation of capital. Heavy taxation of course had a similar effect. Nevertheless, the leading business concerns of the country had been building up reserves for years in conservative fashion, and the proportion of important houses that have failed or been seriously embarrassed has been smaller than in any previous crisis approaching this one in gravity. This is a very reassuring circumstance and promises well for recovery.

The Crops Moving.

The movement of the crops, particularly of grain and live stock has increased notably during the past month, in fact is practically normal. The receipts of wheat at primary markets are now running over those of the corresponding weeks of last year. Prices have been somewhat stronger than in December, wheat at one time reaching a figure about 25 cents per bushel above the low point in November, but most of this gain was lost at the end of January. Premiums over Chicago quotations amounting to about the freight charge from Kansas City to the Gulf ports have ruled at the latter upon the grades desired for export, and have helped local prices in the Southwest materially. Cotton rallied several cents early in the month, but lost it in the last week. The coarse grains have been heavy, owing to the big crops of all in 1920. Nevertheless, with products actually moving in the middle-west, the money situation relaxing, the reserve banks getting into better shape, and a fair degree of trade revival, the whole situation is looking better.

The winter wheat crop is in good condition to date, and although prices are down from what they have been, the world's supply and consumption are very evenly balanced. The crops of the Southern hemisphere have been large this year, but they are not very dependable from year to year, and until Russia again comes into the field as an exporter it would seem that wheat should be fairly secure in about its present position.

Textiles and Shoes.

In cotton, woolen and silk goods a substantial gain in volume of business has been made since the first of the year. It might be put stronger than that, for almost any buying would have been an improvement upon conditions in December. Trade in wholesale markets and also production have been for several months not only below normal, but below current retail distribution. Stocks had been lowered and the way cleared for at least a moderate revival of buying by the trade and of activ-

ity in the industry. In cotton goods this has been especially notable, and has effected a slight recovery of prices, although there is but little disposition on the part of buyers to follow an upward movement In woolen goods there have been further reductions of 20 to 30 per cent, following upon the cuts of about the same proportions in September. Goods are moving in considerable quantities, the attitude of merchants being that they are wanting supplies for the Spring trade, and are willing to buy on the present basis, although not confident of a very large volume of business.

The Equilibrium in Industry.

The fact which stares the retail merchant in the face is the diminished purchasing power of his customers. If he is located in a farming district he sees it in the diminished values of farm products and hears of it over his counters every day. If he is located in an industrial center he is obliged to take account of the fact that the industries generally are running on shortened time and with much reduced pay rolls.

The important thing in this readjustment, as we have endeavored to set forth from month to month, is the maintenance of the equilibrium in industry, so that the various branches of industry will continue to be mutually supporting. The market for the products of each industry is with the people employed in the other industries. This means that the prices of products must maintain a fairly uniform relation or distribution will be interrupted and production will have to be curtailed. This is the essential thing in keeping the industries running and in maintaining employment for the workers. It is not simply a matter of fair play between the industries, although that is something to think of, but the balance between the industries is as necessary to prosperity on one side as the other.

Cooperation to Keep Prices Up.

Notwithstanding that the compensation of some classes lagged behind in the rise of wages and prices, on the whole goods and services went up fairly well together. The failure of some groups to keep up in purchasing power was made good by the great foreign demand and increased governmental expenditures. There is general co-operation in putting prices up; people may grumble, but they look for compensation through getting their own pay increased, a game at which the gains of some are at the expense of others, and which cannot go on indefinitely. When it comes to putting prices down, there are almost infinite difficulties and obstructions to be overcome. Everybody fights it so far as his own products or services are concerned, and by doing so delays the restoration of the equilibrium.

It does no good to be ill-tempered or harshly critical in discussing wages and prices. People are naturally biased in favor of their own interests, and if they really understand their own interests the results will not be bad, because the economic law is such that interests do not in fact conflict nearly so much as is commonly supposed. The point we are urging is that the highest degree of prosperity for every industry is to be had when all are on a common basis.

The Fall of Prices in 1920.

Below we give a table showing the prices of thirty-two important commodities, for an average of several months of 1914 prior to the outbreak of the war, at the close of 1919 and the close of 1920, with the percentage of decline:

Material	Pre-War Months 1914	Close 1919	Close 1920	Decline During 1920
Steel billets—Pitts....	20.50	48.00	43.50	09⅓%
Pig iron—Pitts..........	13.75	36.00	33.00	08⅓%
Copper, elect—N. Y..	.1425	.1875	.13	30⅔%
Lead—N. Y.	.0395	.075	.046	39%
Spelter—N. Y.	.052	.0885	.056	37%
Cotton—N. Y.	.132	.3925	.1475	62½%
Silk, raw, N. Y.	3.94	13.20	5.75	56½%
Wool, scoured—Bos.	.55	1.50	.68	55%
Hides, 1 steer—Chi.	.18	.42	.20	52½%
Rubber, latex, N. Y.	.60	.525	.16	70%
Coffee No.7 Rio, N.Y.	.0912	.15	.0625	58⅓%
Sugar, raw, N. Y.......	.0311	.0728	.0539	26%
Wheat, 2 Red—Chi.	.92	2.16	1.73	20%
Corn—Chic.	.67	1.45	.68	53%
Oats—Chic.	.395	.82	.47	42⅔%
Rye—Chic.	.63	1.83	1.56	15½%
Rice—dom., N. Y.......	.055	.125	.0525	58%
Apples, bbl. 10's,N.Y.	3.50	5.00	4.00	20%
Flour, Spr. Pat. N. Y.	4.65	14.00	9.00	35⅔%
Coal, Bit.—Pitts.........	1.30	2.35	3.75	*60%
Petroleum—Okla.	.85	2.75	3.50	*27%
Steers, tcp—Chicago	8.75	14.50	9.00	38%
Hogs, live—Chic..........	8.20	14.25	9.50	33⅓%
Pork, mess—N. Y.....	23.00	47.00	29.00	38⅓%
Lard, prime—Chic.....	.1052	.2377	.1265	47%
Linseed oil—N. Y.......	.54	1.87	.80	57%
Cocoanut oil—N. Y....	.115	.19	.1175	38%
Butter, extra—N. Y.	.245	.7075	.565	20%
Burlap, heavy N. Y.	.059	.165	.0565	58%
Prt. cloths, 28-64x60—N. Y.	.0338	.1425	.06	58%
Sheetings, 36-48x48—N. Y.	.0588	.28	.0725	74%
Cement, bbl.—N. Y.	1.58	4.40	3.70	16%
Ave. decline in 1920 for commodities listed......				36%

* Denotes increase.

The compilation of retail prices by the Bureau of Labor, Washington, D. C., for a number of cities is instructive for the classification it makes of articles of common consumption and the percentage of average family expenditure for each group. The table below is the Bureau's table for Chicago:

Item of expenditure	Per cent of total expenditure	Per cent of increase from December, 1914, to— Dec. 1915	Dec. 1916	Dec. 1917	Dec. 1918	June 1919	Dec. 1919	June 1920	Dec. 1920
Food	37.8	2.7	25.2	53.4	78.7	73.3	93.1	120.0	70.5
Clothing—									
Male		8.5	26.5	51.9	137.1	146.1	211.8	207.7	166.5
Female		6.2	21.2	50.0	141.3	164.2	232.9	202.6	150.3
All Clothing	16.0	7.5	24.2	50.6	138.9	157.1	224.0	205.3	158.6
Housing	14.9	*.1	.7	1.4	2.6	8.0	14.0	35.1	48.9
Fuel and Light	6.0	*.9	6.6	19.3	37.1	35.7	40.1	62.4	83.5
Furniture and Furnishings	4.4	5.9	20.0	47.5	103.9	126.9	176.0	215.9	205.8
Miscellaneous	20.6	3.0	19.5	41.8	58.7	61.7	84.3	87.5	96.5
TOTAL	100.0	3.0	19.5	41.8	72.2	74.5	100.6	114.6	93.3

* Decrease.

An Uneven Decline.

If this table is compared with the table above it will be seen that there is ground for the farmer's complaint that his staple products as he sells them are back nearer to pre-war prices than they are at retail, or than most of the goods he is obliged to buy. Foodstuffs at retail in December, according to the Bureau of Labor, were 70.5 per cent above 1914 prices. Clothing for which the farmer furnishes the cotton and wool at little above pre war prices, is 158 per cent above the pre-war level, while furniture and furnishings are 205 per cent above that level.

Taken as a whole this comparison between raw materials and food at wholesale and common articles of consumption at retail shows that the readjustment of prices has not proceeded far enough to allow a general resumption of industry or to furnish the basis for a state of prosperity. The producers of the raw materials cannot sell them at the prices they are receiving and buy the finished goods at the prices prevailing for them, and keep the latter industries employed.

The makers of farm implements are sensitive about criticisms leveled at them for maintaining prices. They say that the biggest single item in their costs is steel, and say that it is higher than when they made up their price lists for 1919. Another important factor is fuel, which is higher, and another, freight charges, likewise higher, and finally labor, upon which there has been little or no reduction.

The independent steel producers have reduced wages about twenty per cent. Their prices had been above those of the United States Steel Corporation, but have been reduced to that level, and in some instances below. The big concern has made no move as to wages, and little change in prices as yet. The independents say that with wages as they are, fuel, freights and supplies as they are, they can make no further important reduction in prices.

The price of coal is affected by the wage increases granted to miners, by higher freight charges, higher equipment costs, and higher prices for supplies, while the cost of railroad service is due to the high cost of coal, wage increases, high cost of equipment and supplies.

The clothing manufacturers say that while there are reductions upon cloth, that is only one factor in the cost of a suit of clothes, and that nothing else is lower. The manufacturers of cloth admit that their raw material is lower, and they have reduced wages 20 to 30 per cent, the reduction throughout New England being 22½ per cent. A calculation made by the United States Bureau of Labor, based upon an investigation of the cotton goods industry north and south, shows that in the summer of 1920 hourly wages in that industry on the average were 3.6 times as high as in 1907, 3.2 times as high as in 1913, and 1.8 times as high as in 1918. Fuel, freight, taxes, machinery, repairs, and supplies generally are still on the high level.

If we go around the industries we find them all in a like situation, elevated upon an abnormal basis of costs, and with costs so interlocked that none seems to be able alone to make any important reductions. All plead helplessness, and particularly their wish to avoid wage conflicts, wages being the chief item in each case.

That spirit is commendable. The subject of wages is one that should not be dealt with arbitrarily, but on the contrary should be dealt with considerately, carefully and after full conference with all concerned. The question how to get back to full employment and general prosperity interests everybody and should be discussed amicably together.

The Wage Question.

It is not agreeable to disturb wages, but the fact is that wages have been disturbed by forces over which nobody has control. When millions of wage-earners have already lost their jobs, and many of the others are working only part time, it is apparent that wages have been reduced. The unfortunate thing is that they have been reduced in a manner which

accomplishes nothing. The ability of wage-earners to buy for consumption has been reduced without reducing costs in the industries and without corresponding reduction of their own living costs. They are getting the farmers' products at less than formerly, but not getting the full benefit of the reductions that the farmer has suffered, because of increased freight charges and the higher cost of all the intermediate services, which are due in the main to higher wages for somebody. For instance the baker cannot reduce the price of bread to correspond with the reduction in flour, because flour is only one item in his costs. His labor, delivery costs, machinery, coal, freight charges, supplies, etc., which mainly represent labor, have not come down to correspond with wheat or flour.

Wage-Rates vs. Wage-Payments.

The disposition is to lay too much emphasis upon wage-rates over actual wage-payments. The employers and employes in a given industry may agree harmoniously upon a given scale of wages, but if that scale involves an increase in the cost of the product to consumers, and consumption falls off, employment will fall off, and the total sum disbursed to wage-earners may be less than if the wage-rates were lower. There is a certain price for every product which promotes the largest distribution and a certain adjustment of relations between the industries which promotes a free, full exchange of commodities and results in the largest demand for goods and services. That is the situation which gives prosperity, while a disruption of such relations results in a deadlock, such as exists at this time.

The advances in railroad wages may have been necessary at the time they were made, to keep that group of workers in balance with the others, but they have necessitated an increase of freight and passenger charges which has become a serious burden to industry. Moreover, traffic has fallen off until the railroads are realizing only about 60 per cent of the net income which the new charges were intended to assure. The railroads cannot be maintained on the basis of present income, but evidently the remedy is not in further advances, but in a drastic reduction of operating costs, and they have set themselves to that task by laying off thousands of employes. So the evil effects of a wage-scale out of harmony with conditions, after being felt in all the other industries come back upon the railroad employes themselves.

The building industry is marking time, although the need for construction work is greater than ever before, because the high costs are prohibitive. If building should go on under these conditions the costs would be chargeable in the form of high rentals largely for labor to pay. Would-be builders doubt if they can obtain such rentals and building is almost at a standstill in consequence.

Where the Obstruction Is.

The decline in the prices of agricultural products and other raw materials has effected a substantial reduction in living costs. It is not these things that are obstructing the way to a general readjustment, and a revival of industry. Nor is it the profits of employers that are obstructing the readjustment. Profits have been largely eliminated. The condition of easy sales, which makes a sellers' market, has passed. The high cost of living of which the wage-earners now complain, is in their own wage scales, which, however, are largely nominal, not yielding real results, because of the amount of lost time.

This is the situation which everybody is side-stepping, while looking hopefully from day to day for better times. The times cannot get materially better while industry remains in this unbalanced state. It would be as reasonable to expect a factory to make a satisfactory record in production without having its several departments in balance and working harmoniously.

The Alternative.

Of course, if the prices of farm products and raw materials should recover and thus restore the buying power which about one-half the people of this country have lost, we could resume industrial activity where we left off, but these prices are dependent largely upon world conditions and we can do little to influence them. Shall we wait indefinitely for that to happen, or try to adjust relations among ourselves so that everybody can have work?

The farmers are planning in some localities to reduce production to raise prices, but it will not help the town-workers to have the equilibrium restored in that manner. The latter can better afford to take lower wages, accompanied by lower living costs. The restoration of industry to balance and activity upon a lower level of money-wages and money-prices would improve the position of the wage-earners, and put this country in better position to aid in the restoration of Europe, and that would react favorably upon this country. Wage-rates in terms of money should have a degree of flexibility, giving them a relation to the selling value of products.

One way or another, the equilibrium must be restored. It may be done speedily by understanding and co-operation, or it may take years while industry languishes. The question is larger than an issue between wage-earners and employers. It is a question of adjusting relations between groups of producers so that a full exchange and consumption of products can go on.

Money and Banking.

The money market eased notably in the early part of January and firmed up in the last week. The changes were most evident in bankers' acceptances and funds temporarily employed on stock exchange collateral. The market for acceptances was broad and active, with the result that the rate on prime 90-day bills declined from 6¼ to 5¾ per cent, country banks being the principal buyers. At 5¾ per cent the demand fell off and in the last days of the month the rate advanced to 6 per cent. It is gratifying to observe that the number of bankers interested in the bill market is constantly increasing. The call money market fell to 5 per cent, and even lower, in the early part of the month, and an important amount was loaned at that rate, but the month closed at 7 per cent. Loans on mixed stock exchange collateral fell as low as 6½ but at the close of the month were back to 7½. The run of good commercial paper is on an 8 per cent basis, but a relatively small number of choice names in the market only occasionally are going at 7½ per cent.

The reaction from the rapid decline of interest rates probably resulted from the fact that money having been dumped into a relatively small field, the rates became comparatively low, and funds were withdrawn or shifted to other uses. The movement of funds turned against New York.

There are indications that the reduction of loans accomplished by the Western Reserve banks has created fresh demands on New York.

The position of the Federal Reserve Banks has shown some degree of liquidation, total earning assets, at $2,968,544,000 on January 14, showing below the $3,000,000,000 mark for the first time since December 19, 1920. The high mark was $3,421,976,000 on October 15 last. Inter-bank borrowings, which aggregated about $250,000,000 in October had been reduced to $41,000,000 on January 28, held by the reserve banks of Boston, Philadelphia and Cleveland for three reserve banks in the west and south. Standing alone these three banks would show reserve percentages around and above 70. Next to them stands the San Francisco bank, with a percentage on the date named of 55.2. The New York bank is held down by the heavy loans of the New York City member banks to correspondent banks in all parts of the country. The Chicago bank also is affected by the loans of member banks outside of the district.

How the borrowing reserve banks would have stood in their reserves on January 1, without the aid thus received from the other reserve banks is shown by the following table:

Reserve Bank:	Actual Reserve	Without Borrowing
Richmond	46.2%	41.05%
Kansas City	41.6	29.9
Minneapolis	39.2	29.7
Atlanta	41.4	27.6
Dallas	40.2	16.3

Since the above date the Richmond and Kansas City banks have paid off their borrowings and are now on their own feet, with their legal reserves.

The amount of Federal reserve notes in circulation on January 28, 1921, was $3,090,748,000, which compares with $2,844,227,000 on January 23, 1920, and $3,356,199,000 at the peak on October 22, 1920.

The aggregate of all liabilities of the reserve banks, other than capital and surplus, on January 28, 1921, was $5,559,544,000, against $5,964,038,000 on January 23, 1920. Their total reserves at the former date were $2,319,974,000, against $2,987,896,000 on the latter date.

It is a little strange that the amount of reserve notes in circulation does not diminish more rapidly, in view of the decline of prices and falling of trade and of wage payments. It indicates a considerable amount of currency withdrawn from circulation in private holdings.

The fact that liquidation proceeds slowly need not be a matter of concern, now that it is started. People part with their products reluctantly at prices that are unsatisfactory, and only as they have payments to meet. They are economizing in personal expenditures. At the present level of prices it is not to be expected that the debts created in the years of expansion will be all cleared up in a single year, but trade will feel the effect of debt-paying until the relation between income and indebtedness is much more normal than it is now.

Foreign Trade and Exchange.

The foreign trade of the United States in 1920 was greater in value than in any previous year, aggregating $13,500,000,000, against $11,827,000,000 in 1919. Exports were $8,221,000,000 against $7,922,000,000 in 1919, and imports $5,279,391,364, against $3,905,000,000. The increase in imports was large, but was not maintained in the latter part of the year. Exports held up well to the end of the year, in view of the low rates of foreign currencies in terms of the United States dollar. Of wheat 26,035,147 bushels went out in November, 25,896,270 in December, and 218,280,231 in the year 1920, against 148,086,470 bushels in 1919. The value of breadstuffs exported was greater in 1920 than in 1919 by $158,676,681, but of meats and dairy products less by $616,772,575.

The foreign exchanges gained during January quite decidedly, which is not what might be expected in view of the large trade balances

in favor of the United States in recent months. Those who are in contact with the market continue to hold the opinion, repeatedly expressed, that much of recent exports was bought and the exchange to cover secured in the summer or early fall months.

The total foreign trade of Great Britain in 1920 was £3,272,301,147, which is not far behind the United States and shows a net increase of exports of £226,344,752 over 1919.

The neutral countries of Europe have had quantities of American goods in warehouses upon which they have been taking heavy losses as moved, and have not completed the liquidation.

The opinion is held in some quarters that the exchanges were unduly depressed in the last month of 1920, and that this rally is a natural reaction. It is certainly true that with anything like settled conditions the natural flow of trade and investment capital would soon greatly reduce the premiums now prevailing. The adverse balance of trade was very much less for all the European countries in 1920 than in 1919, and it only requires continued progress in the same direction and an adjustment of governmental revenues to expenditures, to put the exchanges on a fairly stable basis.

The table of exchange rates is as follows:

	Unit Value	Rate in cents Jan. 27	Rate in cents Dec. 28	Change from Par	Depreciation
Canada	1.00	.90	.8550	.10	10%
Germany	.2382	.0182	.0136	.2220	92%
Italy	.1930	.0372	.0330	.1558	80%
Belgium	.1930	.0755	.0610	.1175	61%
France	.1930	.0720	.0580	.1210	63%
England	4.8665	3,8450	3.51	1,0215	21%
Switzerland	.1930	.1597	.1515	.0333	17%
Holland	.4020	.3365	.3125	.0655	16%
Denmark	.2680	.1990	.1540	.0690	26%
Norway	.2680	.1903	.1540	.0777	29%
Sweden	.2680	.2195	.1970	.0485	18%
Spain	.1930	.1385	.1295	.0545	28%
Argentine	.9648	.7970	.7600	.1678	17%
Japan	.4985	.4865	.4800	.0120	2½%

Demand and Time Loans, 1920.

Perhaps our readers have not forgotten that there was some controversy last year over the interest rates upon call loans. We are now able to give the average of renewal rates for every month in the year for demand loans and 90-day loans on stock exchange collateral, as shown by the records of the stock exchange. We give also the same information for the year 1919.

	Demand loans 1919	Demand loans 1920	90 day loans 1919	90 day loans 1920
January	4.87	8.61	5.51	7.65
February	5.02	9.38	5.61	8.78
March	5.05	8.13	5.76	8.44
April	5.36	7.43	5.84	8.31
May	5.34	7.10	5.70	8.50
June	6.30	7.47	5.94	8.31
July	6.45	8.39	6.25	8.59
August	5.30	7.26	6.36	9.00
September	5.62	7.07	6.03	8.48
October	7.45	7.79	6.40	7.93
November	10.43	7.78	7.02	7.84
December	8.06	7.00	7.60	7.34
Average	6.27	7.78	6.17	8.26

It will be seen by the above figures that except for a few months in the last half of 1919 and early part of 1920 the average renewal rate for call loans was lower than the average rate for 90 day loans. We find that this has been true of the average in every year since and including 1908, and that excepting the years 1890, 1899, 1902, 1906 and 1907 it has been true in every year of the last thirty years. This explains what some people unfamiliar with the New York money market have never been able to understand, to-wit: Why anybody dares to borrow money "on call." The explanation is that so much money is always for loan on call that there is seldom any difficulty in getting money at fair rates. The fact that the renewal rate for 30 years has averaged below the 90 day rate is conclusive evidence. Occasionally when money is being withdrawn from the New York market, there is a pinch in the call rate, but the high rates last for so short a time that they do not affect the average very seriously. Outsiders who are not familiar with the New York conditions sometimes are misled by them.

The Clothing Industry.

One of the industries most seriously affected by the trade reaction is that of clothing manufacturers', and the story of its rise and fall since the Armistice is interesting for the lesson in price movements that it teaches.

Ready made clothing is usually made upon order from the trade and preparations for a season are made well in advance. Light weight cloth for spring wear is ordered of the mills as early as the previous June, samples are made up and in October salesmen go out on the road to take orders for spring garments. The manufacture of the garments commences some time early in December and deliveries to the retailers are completed by the following March and are placed on sale to the consumer in April. The heavy weight cloth for winter garments is bought from the mills in November, the line is opened in April, manufacture is commenced early in June and completed in the fall when the retailers place the goods on sale. The manufacturer is thus compelled to purchase his material from nine to twelve months before it reaches the consumer and from four to six months before he receives his orders from the retailer. The retailer, of course, likewise takes a chance for he must anticipate the coming demand of the consumer as best he can.

Following the signing of the Armistice the outlook for business seemed extremely poor. It was feared that general business was going

to be slack and that the demand for clothing would not be great. The time for buying cloth was in November, the month of the signing of the Armistice. The manufacturers, therefore, felt that it would be prudent to buy very sparingly and that if business should prove better than anticipated, they would have no difficulty in securing cloth in the open market later in the season. The retailers took the same view of the situation and were conservative in placing their orders.

After-the-War Boom.

Contrary to these general expectations, business proved the best on record and by May a veritable clothing famine developed. The soldier boys came home from the war and all wanted citizen clothes. Retailers rushed to the wholesale clothing markets and frantically outbid one another for clothing. Manufacturers in turn were obliged to seek cloth in the open market and were confronted with the same difficulty of securing it. The demand exceeded the supply, the competitive situation drove up prices, there being no difficulty in passing advances on to the retailer and consumer.

Labor, likewise, was in inadequate supply and the same competitive situation developed with respect to it.

The New York market where about 60 per cent of the total supply of readymade clothing is made, and where the situation is highly competitive, was the focus of the situation. Wages went bounding up so that between May and December of 1919 wages in New York rose from 100 per cent to 200 per cent. Pressers who were averaging $20.00 per week early in 1919 were receiving as much as $60.00 by the end of the year. Tailors, pocket makers, sleeve sewers and other machine operators were commanding wages ranging all the way from $50 to $75 and $80 a week. Moreover, piecework had been abolished in New York without the substitution of any standards of production, and the natural thing under the circumstances happened, to wit: individual efficiency declined and production fell off, adding still more to the costs. However, the demand for goods and for labor was so great that everything was tolerated, because there was no time for controversies over costs or discipline, and the charges could be passed on to the retailer and consumer. It was an orgy of wage and price inflation, and has had its penalties.

The situation was unbalanced and abnormal, as was the general situation. These wage advances were taking place when butter was 75 cents per pound, at wholesale, wheat $3 per bushel, corn $1.50 per bushel, cotton 30 to 40 cents per pound and other things in proportion.

In other clothing centers, such as Chicago and Rochester, where manufacturing is carried on in large modern factories, and with less of contracting in small shops, the situation did not run wild to the same extent. In those cities piece work was maintained to a considerable extent, and with production standards for week workers. It is claimed that prices did not advance as much in these markets, and that owing to the unforeseen rise of costs, profits were less rather than above normal.

After-the-Boom Slump.

By the close of 1920 the situation had been completely reversed. When the orders for heavy weight garments were being placed by retailers last April business was booming; the outlook was extremely rosy, and the retailers, not wishing to be caught with a shortage of goods as in the previous year, and anticipating that their orders would be scaled down, ordered in excess of their real wants. The manufacturers ordered in the same manner of the mills, who had on their books the greatest season's business ever known.

Then came the slow Spring sales. A panicky feeling spread among the retailers, cancellations began and spread, it having been the established custom of the trade to accept them up to the time that cloth had been cut and work on the orders begun. As a result manufacturers had many goods left on their hands and the mills have been in even worse plight.

These goods have been moving at heavy sacrifice.

The Rochester Situation.

A correspondent describes the situation in Rochester, which is an important point in the industry, as follows:

> In the Rochester clothing market four general wage increases took place within fourteen months as follows: September 1918, general increase of about 15 per cent; April 1919, reduction of hours from 48 to 44 per week and an increase in the hourly rate of about 25 per cent for week workers and of 15 per cents for piece workers; August 1919, average increase of 10 per cent; and December 1919, increase of about 22 per cent. The total increase in wages thus amounted to over 75 per cent. In addition to that there were numerous individual increases obtained by what we call the "nibbling process," which individual workers were able to effect under the threat of leaving employment at a time when labor was extremely scarce and it was practically impossible to replace workers in key positions.
>
> Last August although the downward trend in the industry had already clearly set in, the Union presented its demand for an increase in wages in all of the clothing markets, but was uniformly turned down by the arbitration boards in all the markets. There has been so far no adjustment of wages downward. There have been individual expressions of opinion among manufacturers favoring that course, but none of the manufacturers' associations in the clothing industry have so far taken any official action. Under the agreement with the Union, no individual manufacturer can reduce wages on his own initiative. The request for a reduction in wages would have to be made officially by the Clothiers' Exchange to the Amalgamated Clothing Workers' Union. It goes without saying that the Union would object and that the matter would go to arbitration. Under the rules prevailing in our market, the demand could not be presented before next February, and if a decision were

rendered for a reduction of wages, it could not go into effect before next May when the heavy weight clothing season begins. In other words, so far as the Spring season is concerned, which starts in next month, wages will have to be maintained at the old standard.

This looks like a situation where the "stabilization" of an industry has been carried to the extent of depriving it of the ability to adapt itself to changing conditions.

New York City Situation.

In New York City the manufacturers are insisting upon a return to piecework or the establishment of standards of production. They are also standing for the introduction of labor-saving machinery which heretofore has been successfully resisted by the unions. The proprietors are opening shops on these terms, and with piece rates which they contend should yield wages, on the average not materially less than have been paid. The unions are resisting and are reported to have raised a million dollar strike fund, which is not improbable, in view of the fact that they gave $250,000 to support the steel strike. It is only a few months since statements were given out to the effect that they were about to enter business on their own account, which would seem to be a better way to use their million dollars, for that would be a perfectly legitimate way to get rid of the bothersome employers entirely.

Men's clothing is made principally in New York, Chicago, Boston, Rochester, Baltimore and also at Montreal. Although about 200,000 are normally employed in this line in these cities, not less than 160,000 are out of work today.

There seems to be agreement among authorities in the trade that all costs are destined to come down, and that clothing will be considerably cheaper this year than last. Cloth, thread, linings, etc., which have fallen decidedly, constitute about 60 per cent of the cost of clothing.

A Record of Prices.

Mr. Gilbert K. Chesterton, a noted English writer who is lecturing in this country, said in his first lecture that he had come seriously to the conclusion that the most profound criticism of the education and culture of the present time was to be found in an utterance which he attributed to Artemus Ward, but which if we are not mistaken belongs to Josh Billings: "It ain't so much people's ignorance that does the harm as their knowing so darned much that ain't so."

This is suggestive of a vast amount of writing and talking just now current about business conditions, and particularly about the manipulation of markets against the farmers. The following paragraph is taken from a recent article in a weekly publication of high class and large circulation:

The markets are crowded with crops at one season and are almost empty of them at all others. This means that when the farmer is harvesting his year's return, his products bring him in the least. They are bought up by speculators when they are cheap and when the farmer must sell in order to get money to pay his bills, and then the dealers manipulate the amount they will let loose on the market until harvest time comes again, and at prices to meet their own speculative and immoral wishes.

Mr. George H. Johnston, cashier of the Citizens State Bank of Wales, North Dakota, had read statements of this kind until he thought he would like to know how much truth there was in them. He did what it is charitable to suppose the writers had never done, i. e., he went to the records of the Department of Agriculture at Washington and the annual reports of the Chicago Board of Trade, and put the results of his inquiry into a letter which has been published in "North Dakota Banker." We quote, in part, below, the two columns of figures together covering the period from 1901 to 1919 inclusive:

What are the facts? Has the price of wheat been lower in the fall than in the spring and in case it has been lower is the difference in price more than is necessary to pay for interest on money, insurance, shrinkage of wheat and storage room for the wheat? You can find the answer to this question if you will study the tables given below.

Column One gives the average monthly prices for the ten-year period, 1901-1910, of cash wheat in Chicago.

Column Two gives the average farm prices for wheat on the first of each month, 1910-1919:

Months:	One 1901-10	Two 1910-19
July	93.1c	$1.27.8
August	92.1c	1.28.9
September	92.7c	1.28.4
October	92.3c	1.28
November	91.1c	1.31.1
December	93.3c	1.30.2
Average price for six months, July-December	92.4c	$1.29
January	91.2c	$1.20.5
February	93.5c	1.26.4
March	92.8c	1.25.6
April	92.3c	1.27.1
May	95.6c	1.37.2
June	95.7c	1.36.5
Average price for six months, January-June	93.5c	$1.29

Column Three gives the per cent of wheat marketed by U. S. farmers in different months.

Column Four gives the per cent of wheat marketed by North Dakota farmers for each month of the year.

Months:	Three	Four
July	12.6%	2.9%
August	14.9%	5.2%
September	16.8%	19.9%
October	14.6%	19.8%
November	10.9%	16.3%
December	7.8%	10.6%
Per cent of grain marketed by farmers in six months period July-December	78%	75%

January	5.7%	5.8%
February	4.6%	4.6%
March	3.3%	4.2%
April	3.5%	2.7%
May	3 %	2.7%
June	2.3%	4.4%
Per cent of grain marketed by farmers in six months period January-June	22%	25%

These tables show that for the years 1901-1910 the farmer who held his wheat until the six months period January-June received only one and one-tenth cent more per bushel than the farmers who sold shortly after harvest. This one and one-tenth cent would not come any ways near paying for interest on money, shrinkage of grain, storage and insurance.

For the years 1910-1919 the farmer who held his wheat until the six months period January-June received not one cent moreper bushel than the farmer who sold shortly after harvest.

In the past twenty years the North Dakota farmer who marketed his wheat in November and December made more money than the one who held his wheat until spring.

The prevailing idea that wheat is always much higher in the spring than in the fall is fallacy as is proved by these tables.

There is another idea prevalent which is proved fallacious by these tables and that is the idea that the grain buyers, speculators, Chamber of Commerce, terminal elevators, millers and bankers combine to depress prices when the farmer sells and boost prices as soon as the wheat is out of the farmers' hands and into the hands of the speculators.

The farmer marketed 78% of his wheat in the six months period, July-December, and during that six-months period average price of wheat was not one cent lower than during the other six months period when the farmer marketed only 22% of his wheat. (This is for the years 1910-1919.) For the years 1901-1910 wheat was one and one-tenth cent lower when the farmer marketed 78% of his wheat, but this margin would not pay for expenses of holding into the next six months period.

No honest man can go through these tables and then claim that the Minneapolis Chamber of Commerce and the Chicago and Duluth Boards of Trade fix the price of wheat so as to force the farmer to accept a low price when he markets his grain and then boost the price before they pass it on to the consumer. Yet I have heard such accusations made time and again not only by farmers but by bankers and other business men.

We suggest that the various farmers' organizations study these figures and investigate them. If they are substantially correct, as we have reason to believe they are, they are worth more as a guide to action than all the theories and opinions with which they are overwhelmed.

Meat Packers' Profits.

The Armour and Swift reports to stockholders show that each of these companies had to go into the surplus accumulated in other years to pay the dividends of the last fiscal year.

Armour's sales aggregated $900,000,000, and the statement shows that the operations in this country resulted in a net loss, but including the Armour establishments in foreign countries netted a return of 2.4 per cent on the average capital investment of $231,000,000.

The Cudahy Company discontinued dividends during the year, and reported a deficit which was charged against the surplus accumulated in other years. The President in his annual report to stockholders stated that this outcome was due to losses taken upon products on hand, and added:

> The farmer who, during the last year, sold his fattened cattle at less than he paid for them as feeders, or who was unable to realize from his hogs the value of the high-priced corn used to fatten them, should bear in mind that the packer who bought them has probably sold the product at even greater loss. In other words, the packer with products in course of preparation or cure at all times is the owner of what is equivalent to many thousands of cattle, hogs and sheep. Few live stock producers realize that declines in live-stock prices affect the packer to a much greater extent through such holdings than they affect any individual producer.

Swift & Company's earnings for the last ten years, as reported to stockholders, who now number about 40,000, have been as follows:

Fiscal Years	Sales	Net Profit per Dollar of Sales (cents)	Net Profit on Net Worth (Capital and Surplus	Net Profit (plus Interest paid) on Total Assets
1911	$275,000,000	2.23	7.24	6.09
1912	300,000,000	2.75	8.17	7.55
1913	400,000,000	2.31	8.89	8.34
1914	425,000,000	2.21	8.75	7.24
1915	500,000,000	2.81	12.56	10.27
1916	575,000,000	3.56	16.93	11.59
1917	875,000,000	3.96	25.61	17.13
1918	1,200,000,000	1.76	13.22	10.41
1919	1,200,000,000	1.15	5.91	6.37
1920	1,100,000,000	.44	2.17	3.79
Ten Year Average	685,000,000	2.07%	10.18%	8.25%

These figures show moderate fluctuations before the war, an increase of profits while business was being done upon a rising scale of prices, and the decline of profits since the armistice, with the price movement downward. The big year in the business was 1917, when the prices of live stock and products rose rapidly and profits were enhanced by the gains upon stocks on hand. These gains were all lost, however, in the three years 1918, 1919 and 1920, in the declines which then occurred. The average profit for the last five years was less than for the five years 1911-15.

The figures show how an increase in the volume of turnover, although accompanied by only a small increase in the percentage of sales' profit, will yield a disproportionate profit upon capital.

They demonstrate anew that the meat-packing business is conducted upon a smaller margin of profit than any other industry which is at all comparable in extent of organization, multiplicity of detail and degree of risk. All income contributing to the profits of the business, including that from by-products and the operation of private car lines, is taken into this account.

The Agricultural Situation.

We have a letter from a business man, resident in New Mexico, and well informed upon the live stock and other interests of the Southwest, which contains so many suggestions pertinent to the present situation that we give space to the greater part of it herewith:

Unfortunately when market quotations are largely nominal there is no vehicle for information sufficiently reliable to convey conviction to the men at the head of financial circles, who must know the actual facts in order to devise adequate remedial measures. For a year past I have been heartsick at this lack of contact between facts and finance.

Leaving out of consideration the New England and Middle Atlantic States, with which I am not in touch at present, it is a fact that at the farm and on the range values of staple farm products and livestock have depreciated very much more than thirty-three and one-third per cent. Cotton, corn, wheat, cattle sheep, wool and hides are today below pre-war values to the producer. This condition has arisen suddenly and concurrently with advances permitted to railway labor and freight rates, a guarantee of 6 per cent earnings to the railways, and a tremendous increase of credits to the producers themselves, partly based upon the necessity to protect loans already made; but far too largely in expectation of a continuation of high values.

Many of our friends in Congress, as it appears to me, are ill advised in the character of criticism upon the handling of the Federal Reserve system.

A prominent banking authority in addressing the meeting of the American Farm Bureau Federation advocated credits to enable the producer to hold farm products a year for distribution and carry over a surplus. I consider this principle wrong. I do not believe the farmer is capable of being also a distributer, nor do I believe he has capital enough to justify the attempt on his part to produce two crops while carrying one, no matter what credit he might obtain. It is very certain that the range or farm livestock producer has not the room or the feed to attempt it. He must sell annually and some one else must distribute.

Take wool for an example of the effect of such a system. The grower has been loaned 20 cents per pound to hold his wool, thus increasing the strain on the Western reserve districts. Naturally his ideas of value have been stiffened. He has staid off the market. The factor who usually bought his wool might with the 20 cents credit have done so this year. Relieved of this burden and with the grower out of reach he has become an importer. Result—more wool than ever on hand—no market for anyone. All hands face bankruptcy and nobody can buy clothes!

We are not suffering from lack of credit, but from the abuse and wrong application of credit, which have been the two largest factors in unsettling sound business and destroying confidence. Confidence once destroyed is most difficult to restore, especially when it faces such appalling losses in values of all collateral for debts already incurred as it does throughout the nation at the present time.

President Hagenbarth's statement to the Ways and Means Committee that throughout the West present indebtedness upon sheep is six dollars to twelve dollars, average nine dollars, upon cattle thirty dollars to sixty dollars, average thirty-five dollars, must be very close to correct. Ewes on the market have netted as low as 32 cents a piece; cows shipped from here netted $13.50 each on Kansas City market. On such markets even at top figures for range stock we can not liquidate even enough to meet current expenses. Naturally there are no range sales. Where and when can we get off?

Surely present experience demonstrates that the elasticity for inflation of the Federal Reserve system is a double edged sword without proper direction and control. It is dangerous for the average banker, if not even for the expert.

Am I wrong when I conclude that civilization has reached the stage where some fundamental differentiation must be provided between credits for the production and the distribution of the necessities of existence and credits for luxuries, fads and fancies, or our whole financial structure will be overturned? We must so safeguard, by adequate financing, food, clothing and housing that we can properly restrict waste and idle luxuries in time of need without hitting everyone with the same rediscount club unless he can dodge it, which the gambler, profligate and profiteer can always do, and leave it to the producer and legitimate business man to go to the hospital or graveyard.

The first requisite is a correct moral attitude toward the problem and not the present widespread attitude of "every one for himself and the devil take hindmost," evidenced ad nauseam by profiteering and its twin, cancelitis.

Longer term and cheaper credits are needed for the producer to meet the unavoidable expense and risk of production so that one crop disaster will not put him in the discard.

The best minds of the country must also devise an adequate financial system for distribution of these same necessities of existence; so that this load may be lifted from the producer and not be dropped upon him without warning as has been done this time.

Is not the present cataclysm severe and widespread enough to convince every thinking man that not only is emergency treatment needed to relieve the present economic pressure upon agriculture and livestock; and to pro rate equitably the losses necessary to restore our economic equilibrium; but that adequate permanent protection must be provided against a recurrence of this pyramiding of losses upon the producer by all other commercial interests in time of stress under the delusion that while he cannot escape everyone else can?

Does not our present banking system, based upon rapid turnover and short time paper, inevitably bring about this combination and this result, especially when credit is refused to all those interests which usually hold as intermediaries for the orderly distribution upon the markets?

One of the most significant utterances in this letter is the statement that the first requisite for sound social conditions is a correct moral attitude toward them. When everybody is willing to guide his actions by policies that will serve the interests of the community to the best advantage, conditions will be far better for everybody. Ignorance of mutual interests of course causes most of the trouble. It caused the war, and the disorder in Europe which has delayed recovery from the war. It has prevented this country's doing all that it might do in aiding the recovery of Europe, and our failure to give such aid has reacted upon our own business situation.

It is perfectly true that greater consideration should be given to the provision of capital and credit for the production of necessities than for "luxuries, fads and fancies," but that responsibility cannot be placed upon a few, or upon a single class, such as the bankers. The public would rebel if the exercise of arbitrary power by the bankers was carried very far. We grant that the bankers should direct their support so far as practicable to this end, and we believe that very generally they give such preference. But bankers have only a limited control over the funds in their keeping. The people who own the bank deposits have the real control over their use. As a rule the

depositors are also the borrowers. They have the first claim as borrowers. A depositor, whether an individual or a corporation, expects to have borrowing accommodations reasonably corresponding to credit balances and responsibility, and if not accorded them at one bank will look for them elsewhere. Moreover, if people cannot borrow of banks they will borrow of individuals. Any banker will testify as a common experience, that when he ceases to make loans the applicants will borrow of his depositors. A bank begins to lose its deposits from the day that it begins to curtail credit accommodations.

Social Responsibility Is Widespread.

Our correspondent's idea of social responsibility is sound, but it is impossible to concentrate that responsibility upon a few, or for the government to assume it. The great body of the people must share in it, and shape their thinking, their actions, their habits, their spending accordingly. Nobody can do very much for the people but the people themselves. They must understand the interest they have in sound public policies, and that there can be no sound public policies without their co-operation.

It is deplorable that so much should be wasted in vulgar display and indulgences that are harmful instead of beneficial, but it is a very doubtful policy to attempt to regulate personal expenditures. After all is said, if that is what people want it is what they will work for, and is an incentive to their efforts. One person works for the purpose of gratifying one ambition, and another person to gratify a wholly different ambition. What appeals to one does not appeal to another, and would not prompt another to exert himself. The main thing is that everybody shall exert himself to render some kind of service in exchange for that which he wants. In other words, it is necessary that everybody shall have an incentive, and considerable latitude must be allowed to individual choice.

We have swung from a state of abnormally heavy demands and activity to a state of abnormally light demands and depression, both the effects of popular impulse. It is unfortunate that in a time of full employment, good wages and general prosperity, more provision should not be made for bad times that may follow, but individuals should make such provisions for themselves. If every business man in good times would be cautious enough to accumulate reserves, and each individual in the management of his personal affairs would do the same, not only would they provide protection for themselves in periods of depression, but they would prevent the recurrence of periods of depression by giving stability to industry and to the buying power of the public. It is even more important that people shall develop character than that they shall be comfortable, and that requires that they shall exercise forethought and the resolution to care for themselves.

What our correspondent says about the amount of capital required to finance the distribution of the crops and the inability of the farmers to supply it is very pertinent to some of the elaborate plans now under consideration.

The banks cannot undertake to finance such a system of long credits, for the reason that the banks are handling funds which belong to depositors. The banks cannot undertake to pay all deposits on demand and then loan the funds for indefinite periods. For the banks to agree to allow loans to run until it suited the convenience of borrowers to pay them, would put an end to the banking business, because nobody would deposit any funds under such conditions. The funds must be loaned under conditions which insure continuous liquidation. Long term credits should be supplied by investors, who naturally will insist upon ample security to cover all possible fluctuations of the markets, with storage facilities which give protection against deterioration of the products.

Speculation in Farm Products.

A great many farmers are convinced that their interests as producers are adversely affected by speculation in farm products, and an active campaign is on to curtail the operations of the grain and cotton exchanges, particularly the trading in futures, or making of contracts for future delivery. A summary of resolutions adopted at the recent convention of the American Farm Bureau Association says among other declarations that the farmers want more credit available for aiding production and less for aiding speculation.

Speculation has a bad name because the excesses of trading are always called by that name, while the same kind of trading carried on to a moderate and beneficial extent is not called speculation. It is called investment buying or legitimate dealing.

Are the farmers sure that at the present time they are more in need of credit to promote production than to support speculation? The cotton-growers are so intent upon reducing production that they are asking the bankers to refuse credit to all farmers who will not agree to curtail the acreage in cotton from one-third to one-half. Cotton is low because of a lack of buyers who will take it off the present market and carry it for consumption in the future. In other words, there is a lack of speculative interest in cotton, and the grains as well. The outlook for world

consumption is not sufficiently encouraging to induce investment, or speculation, whichever it may be called, and prices suffer in consequence. And not only has the speculator failed to support the markets, but it is charged that he has depressed them by selling cotton and grain short, or in other words, he has entered into contracts to deliver given quantities of these commodities at future dates, before acquiring them. The grievance against the speculator is that he has not been speculating in the desired way. It is an old story that we are prone to be impatient with people whose ideas and policies run counter to our own opinions, particularly if we think our interests are adversely affected. It is well to be on our guard against such impulses.

The Unavoidable Market Uncertainties.

The service of the speculator in the distribution of products is in carrying them from the time they are ready for market until they are disposed of to consumers. It is a service quite distinct from that of production. Farm products are grown and consumed all over the world, and for most of them the prices are subject to world conditions. Notwithstanding all that is said about manipulation, price movements are controlled in the main by the relations of supply and demand. The farmers as a rule wish to sell their crops soon after they are harvested, in order that they may have the use of the proceeds. Moreover, the individual farmer is too busy farming to be able to keep himself closely informed upon all the conditions that affect supply and demand, and there is more risk to him in carrying his product for a future market than there is to a dealer who makes it his business to keep posted.

Whoever carries products for a future market is taking risks, and therefore must be classed as a speculator. It is impossible to eliminate the speculative factor, because there is always uncertainty about future supplies. As late as the 1st of last June the government reports upon the progress of the cotton crop indicated a yield of only about 10,000,000 bales, and yet the crop has yielded, according to government estimate, about 13,000,000 bales, an increase over the June 1st estimate of nearly 30 per cent. The Census Bureau's latest report of ginnings shows 12,016,000 bales ginned to January 16, against 10,307,000 bales ginned to January 15, last year, and these figures are considered as bearing out the government's December estimate of the crop. A turn like that is bound to cause price fluctuations. Last year the crop was 11,521,000 bales.

A similar change took place in the winter wheat crop. Early in the spring it looked as though the wheat crop in Kansas and other Western States would be nearly a failure, but timely rains brought a remarkable recovery, and that section produced the second largest crop it ever made. On the other hand the spring wheat crop was at first very promising, but later suffered serious deterioration in quality. After the American crop was harvested, unusually good crops in Australia and Argentina had an important influence upon prices in this country as well as elsewhere, and, finally, the buying power of the countries of Europe to which the surplus of all other countries must be sold, has been an important factor in prices.

Within the last month the Canadian government estimate of the wheat crop in that country has been reduced 30,000,000 bushels below the estimate made about November 1st. It now stands at 263,000,000 bushels, while in 1919 the final estimate was 193,000,000 bushels, from a larger acreage.

Professor G. F. Warren of Cornell University, in a statement made a few days ago before the Senate Finance Committee, said:

> In the past fifty-five years there have been but three years when the combined average yields per acre of corn, oats, wheat, barley, rye and buckwheat were as high as this year. The average pounds per acre of these six grains was 1,333 this year. This is 14 per cent above last year and 14 per cent above the four-year average; 46 per cent above the drouth year of 1901.
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> The three drouth years of 1890, 1894 and 1901 produced 920, 934 and 913 pounds respectively. If a drouth comes before the world gets readjusted it will be extremely serious, and particularly if it should be in a year when the acreages planted are low.

All of these changing influences have been affecting markets throughout the past year. The business of dealing in grain, or any product of the soil, is speculative in the same sense that the production of these commodities is speculative, i. e., it is involved in uncertainties.

Services of the Speculator.

Nevertheless, it is less speculative to a professional dealer, who makes it his business to be informed upon the progress of the crops over the world, the amount in store, and prospective demands, than for one who does not qualify himself in this manner. And so there have developed professional grain and cotton traders in all countries, who buy and sell these products for future delivery. They are specialists, who know the conditions and hazards of the business, as the prospector for gold or oil hidden under the surface of the earth knows the conditions and risk with which he must deal. It is a peculiarly suitable field for a specialist, and, in this as in every other case where a want exists, men are developed with special talents, training and experience to meet the need. They know how to reduce the risks to the minimum, to hedge and protect themselves in various ways so that they are protected by the law of averages.

Speculating vs. Gambling.

Of course it is true that a large share of the trading in futures is done by persons who have not these qualifications. Anybody may use the market facilities. No educational qualification is required, nor do would-be traders have to pass any test of intellectual development, such as were applied to enlisting soldiers, and which showed that a large percentage of the grown population has only the mental development of a fourteen-year-old boy. And so a great many people essay to speculate on the exchanges, tempted by the fact that the action is speedy, and they lose money, as they do in buying "blue sky" stock and making other investments for which they have no qualifications. The opportunities for losing money in the business world are so numerous that they will not be materially lessened by any action that can be taken relative to grain, cotton and stock exchanges, and it is unreasonable that legitimate business should be denied useful facilities because many people do not know how to use them.

There is no way of distinguishing by law between the operations of this uninformed class and those of the skillful traders. The act of buying or selling is the same whether it is the result of intelligence and careful calculation or mere gambling, whether it is with or without intent to make or take delivery.

Moreover, the expectation to make or take delivery is not an important factor in a transaction. The buyer buys because he thinks the commodity will be higher or sells because he thinks it will be lower, and his purpose is realized when a movement takes place which enables him to close out at a profit. While under contract he is under all the obligations of a buyer or seller, and must make or take delivery unless he can transfer his obligations to another.

The operations of even the gambling traders is to broaden the market, which on the whole is not to the disadvantage of the market. There is what is known as a runaway market, which is always a bull market dominated by the speculative public rather than by the well-informed professional element. The balancing and constructive force in the market is the body of well-informed traders, who come as near to knowing actual conditions as it is possible to approximate.

The Service of the Exchange.

The service of the Exchanges and of the traders is in providing a market at all times—not simply a market as the commodities are needed for immediate consumption, but a market that will carry a surplus and maintain fairly uniform prices, changing conditions considered, throughout the year. Every plan to eliminate transactions and narrow the market is to be viewed with misgivings that it will lessen the stability of the market. Stability is not to be interpreted as meaning a uniform price when all the conditions that legitimately affect prices are changing, but a strength that will give protection against manipulation or against sudden changes in conditions, so that fluctuations are no greater than the changes justify.

The Volume of Transactions.

The fact that the wheat crop is sold fourteen times over in the course of a year, if true as alleged, is of no consequence. It certainly does not mean that fourteen profits were taken, for if the market was declining every transaction may have been at a loss. What difference would it make if the loss represented by a continued decline was divided among fourteen persons or all taken by one, or if the profit of a continued rise was divided among fourteen or taken by one, or if one-half of the fourteen dealers had profits and the other half losses? The really significant thing, from the market standpoint is that so many people were interested in the market, and ready to buy or sell.

The truth is that the Chicago market is the chief hedging market for dealers and millers over the world. The trading there is related to the grain and flour business of the world, and not merely to the crops of this country.

The markets fluctuate as we have seen, because conditions are always changing, and sellers as well as buyers, farmers as well as traders, are quick to want price changes if conditions change in their favor.

It is better to have a fluctuating market than no market at all. Some of the most bitter complaints in recent months have alleged that farmers could not get a bid for their products. There have been times in the last six months when wool-growers have said there was no market for their products, which is worse than anything said of the cotton market.

Advantages of a Broad Market.

It is desirable to have a broad market, that is, a market in which many possible buyers are interested, which affords convenient facilities for buying and selling, and which is open and readily accessible to traders from outside any one city or country. These facilities the grain and cotton exchanges afford. They are nothing but organizations which provide meeting places for buyers and sellers, and establish rules for safe-guarding transactions. The important markets of the world are in telegraphic touch with each other, and react upon each other. Subject to transportation costs, they cannot stay long out of line with each other. It is a mistake to think that the traders act together, or in any general sense conspire to put prices up or down. In view of the number of

markets, the number of traders in each market, and the freedom of the markets, that would be impossible. The facilities of the exchanges are the greatest possible protection to both producers and consumers, and have reduced the margin between producers and consumers to smaller proportions than is maintained in products which are without exchange facilities.

The Hedging Practice.

It is the service of a specialist, of one who does not buy of farmers or operate storage warehouses. He makes the market for the man who buys grain at the country stations, and enables the latter to hedge his purchases, borrow money to better advantage and do business upon a smaller margin than otherwise would be possible. The miller in normal times is able to hedge against the sale of flour in process of manufacture, by selling wheat for future delivery. This arises from the fact that the difference between cash wheat and the future deliveries is fairly uniform and so also is the margin between wheat and flour. A miller buys wheat today for manufacture into flour, selling wheat for future delivery; if the price of flour declines, the price of wheat will almost certainly be lower, and he will have a profit on his "short" sale that will approximately offset his loss on flour. The industry of manufacturing flour is rendered less speculative because professional speculators or dealers in futures, are willing to carry the inevitable risks that attach to the business.

It is a common thing for bankers lending money to grain dealers and flour-millers to make it a condition that all transactions shall be covered by definite contracts or hedges.

To some extent the same practice has developed in the cotton goods industry, the manufacturer protecting himself in making up goods by selling raw cotton for future delivery. If goods decline raw cotton will almost certainly decline also, and on the other hand if both goods and cotton advance, the margin between them probably will remain about the same.

Effect of Hedging and Short-Selling.

Every hedge sale in the central market is against a purchase, and followed by a subsequent purchase when the liquidating sale is made, provided delivery is not made on the original sale. Any one who follows the market reports from day to day will note that the buying, or removal of hedges, is often mentioned as an important factor supporting prices.

The same is true of "short" sales. The seller of grain for future delivery is under contract to deliver and must make good or suffer loss. By the terms of his contract he has obligated himself to buy if he does not already possess the quantity he is selling, a fact that seems to be overlooked by the critics of the transaction.

There is nothing inherently wrong about an engagement to sell and deliver a given quantity of any commodity at a future date, even though the seller does not possess the stated amount at the time of entering upon the contract. He undertakes to procure and deliver it, as a contractor undertakes to build a house, or supply coal, or provide food for a body of soldiers or laborers at a given date or over a period of time. He pays a sum of money or furnishes security that he will fulfill his obligation.

The Freedom of the Markets.

The point of the whole controversy is in the freedom of the markets. Nothing is to be gained by restricting the markets. The theory that it is necessary in order to protect the farmers from manipulation, is a mistake, for the effect will be to deprive them of markets. Their best protection is in broad, open, markets. Traders cannot be compelled to always support the markets; if they are to trade at all they must be allowed to express their judgment. The idea of abolishing the exchanges, or limiting the number of people who may trade in them, or the volume of transactions, or the kind of bona fide contracts they may make with each other for the sale and delivery of products, is calculated to destroy or limit the usefulness of market-places and impair the reliability of the market. There is safety in numbers, and always a presumption in favor of freedom as against arbitrary governmental regulation, which is seldom expert.

As a matter of fact the commodities traded in upon the exchanges have fallen no faster or farther than commodities not traded in, but have fared quite as well or better, as witness comparisons with wool, rubber, copper, rice and live stock.

The fact that in the absence of a market things do not fluctuate as much as they do in an active market is not to be taken as proving that it is better not to have a market. It is sometimes said that simple real estate mortgages are a better investment than bonds, because the quotations of the latter show a heavy decline in recent years. According to that argument any mortgage or promissory note may be better than a government bond. The latter has declined because there is a market which enables it to be sold if the owner wants to sell, and the price has declined because so many are wanting to sell. Mortgages are not quotably lower, because there is no market for them.

It is probably true that short selling was a factor in the rapid decline of wheat last fall, but the real cause was the unusual promise of the growing crops in Argentina and Australia.

That influence was bound to make itself felt and was as effective in weakening the buying side as in stimulating short-selling.

Stabilizing the Market.

Undoubtedly it is desirable to have the greatest possible stability in prices, and inquiry into all the conditions affecting the markets is to be encouraged, but the proposal to control the production and marketing of farm products so that a farmer will know when he plants his crop what he will get for it, and always be assured of a fair profit, will be found attended in execution by very great difficulties.

It involves disconnecting markets and prices in the United States from markets and prices in other countries, which would mean the discontinuance of agricultural export or imports, or else includes the task of stabilizing prices all over the world. The only way prices can be maintained is by standing ready to take and pay for all the commodities offered at the fixed price. It would seem to involve a regulation of the acreage in each crop, and, on account of the fluctuations in yield, large reserves in store to equalize supplies from year to year. Evidently very large capital would be required for such an undertaking, and the responsibilities of the management would be very great.

Unless the grower receives a higher price on a small crop than on a large one, he will not be assured of a profit, which seems to forbid the idea that prices can be always uniform. Again, if the farmers of one state have a good crop and those of another state a short one, it will hardly be practicable to provide a uniform profit for both at the same price. In view of the very wide variations in costs and profits, and the many reasons for them, probably the plan would not go beyond an attempt to name prices, yielding a fair average profit, but how would that be calculated? We have seen that in official calculations of costs land charges account for about one-half the total. What land values would be adopted as a basis for price fixing: those of Iowa, Oklahoma, Virginia or New York?

All of such plans seem to develop logically into guild socialism, which would divide society up into water-tight compartments, occupied by contending groups. Society is now organized almost to the point of strangulation, with the fundamental need for co-operation subordinated to efforts for class aggrandizement. The chief argument for the proposal to organize the farmers for the control of production in that line is that all the other classes are organized and farmers must be in self-defence, but there is something to be said for the preservation of individual freedom, individual initiative, individual ambition and individual responsibility. They have done something for the race in the past.

Bond Market.

There was a distinct improvement in the bond market during the closing days of 1920, and the investment demand gained in momentum with the turn of the year. Prices of general market high-grade investment securities have advanced from 2 per cent to 5 per cent during the month, and the market has continued strong, with practically no reaction from the recent high levels.

The most impressive feature of the bond market during the month has been the quick absorption of a large number of new issues, the most important of which were:

$12,000,000	Grand Trunk Ry. of Canada 15-yr. 6½% Equipment Certificates—price 95.40, and interest, to yield 7%.
30,000,000	Northwestern Bell Telephone Co. 1st Mtge. 20-yr. 7% Bonds—price 96½ and interest, yielding 7.30%.
30,000,000	Kingdom of Belgium External Loan 20-yr. 8% Sinking Fund Gold Bonds, at par and interest, to yield 8%.
30,000,000	American Agricultural Chemical Co. 7½% 1st Refunding Mortgage Sinking Fund Gold Bonds, at 97½, to yield 7¾%.
60,000,000	Pennsylvania R. R. Co. 15-yr. 6½% Secured Gold Bonds, at 99¼, to yield 6.58%.

Following is a list of the more important issues of municipal financing:

$550,000	Cincinnati School District, Ohio, 5% Bonds, due February 24, 1960, at 100 and interest.
987,500	City of Warren, Ohio. 5s and 6s—$687,500 5s due October 1, 1921-48; $300,000 6s due November 1, 1930—at prices to yield from 5.60% to 6%, according to maturity.
500,000	State of Oregon Serial 4½s, maturing from 1926 to 1945, at prices to yield from 5.60% to 5.10%, according to maturity.
530,000	City of Canton, Ohio, 6s, due serially from 1943 to 1959—prices to yield 5.30% basis.
3,834,000	Detroit, Mich., Serial 5¼s and 5½s, maturing 1922 to 1951—prices to yield from 6% to 5.15%, according to maturities.
10,126,000	City of Detroit, Mich., 5s, 5½s and 6s, maturing serially from 1921-50—prices 5¾ to 5.10%, according to maturity.
11,455,000	City of Chicago, Ill., 4s, due serially from 1922-39, at prices to yield from 5⅝% to 5.10%, according to maturity.
500,000	City of Akron, O., Serial 5½% Bonds, maturing 1936-51, at prices to yield 5.40% to 5.20%, according to maturity.
600,000	Portsmouth, Va., 5½% Gold Bonds, due Jan. 1, 1951.
845,387	City of Toledo, O., 6s, due 1928, at price to yield 5⅝%.
5,000,000	City of Cleveland, O., School District Serial 6s, maturing from 1 to 20 years, at prices to yield 6% to 5.30%.
4,225,000	City of Rochester, N. Y., Serial 5s, maturing from 1922-51, at prices to yield from 5.50% to 4.65%.
5,000,000	City of Philadelphia 5% Bonds, due Jan. 1, 1951, at prices to yield 4.75%.
7,000,000	State of South Dakota State Highway & Rural Credit 5½% and 6½% Bonds, maturing 1929-41 ,at prices to yield 5.70% to 5.40%, according to maturity.
2,100,000	City of Yonkers, N. Y., 5½% Bonds, maturing serially 1922 to 1961, at prices to yield 5½% to 4.90%, according to maturity.
1,500,000	City of Elizabeth, N. J., 5½% Bonds, maturing serially 1922 to 1925, at prices to yield 6% to 5.05%.